

PUBLIC DISCLOSURE

SEPTEMBER 1, 2000

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

LUSO-AMERICAN CREDIT UNION

**37 TREMONT STREET
PEABODY, MA 01960**

**DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110**

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Luso-American Credit Union** prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "High Satisfactory"

The credit union's rating is based upon the five performance criteria analyzed in this report. The loan-to-deposit ratio has averaged 70.7% for the period June 30, 1998, to June 30, 2000. The ratio has increased from an average of 66.2% during the last examination on February 23, 1998. A review of the credit union's origination of residential mortgage and home improvement loans and consumer loans from January 1, 1998, through year-to-date August 23, 2000, revealed that the majority of loans were extended within the assessment area. The geographic distribution of loans reflects an excellent penetration throughout the assessment area and compares favorably to the assessment area's demographics. In addition, the credit union's performance exceeded that of other lenders within its assessment area. Lending to borrowers of different income levels indicates a good distribution, as the performance of the credit union for extending loans to low and moderate-income borrowers exceeds all other HMDA reportable lenders. No CRA-related complaints have been received since the last examination. The fair lending examination revealed no evidence of discriminatory acts or practices.

PERFORMANCE CONTEXT

Description of Institution

Luso-American Credit Union has been a state-chartered credit union since 1961. The credit union was originally formed to serve people of Portuguese origin residing or working in the City of Peabody. Today, membership has expanded to include anyone working or residing in the City of Peabody and/or cities and towns contiguous to the City of Peabody.

As of the June 30, 2000 National Credit Union Association's (NCUA) Quarterly Call Report, Luso-American Credit Union had total assets of \$52,700,531. Of these total assets, \$33,395,658 or 63.4 percent were in the form of gross loans. The following table reflects Luso-American Credit Union's loan portfolio (by percentage) as of June 30, 2000.

Luso-American Credit Union – Loan Portfolio*	
Loan Type	Percentage of Gross Loans
1-4 Residential Mortgages	61.0
New Automobile	3.9
Used Automobile	4.9
Other Real Estate Loans **	17.9
Unsecured Personal Loans	3.7
Unsecured Credit Card Loans	6.1
All Other Personal Loans	2.5

* Source: NCUA 5300 Report as of 06-30-00

** Includes Home Improvement, Home Equity Lines of Credit, Second Mortgages, and Mobile Home Loans.

The credit union sells loans on the secondary market. In 1998, the credit union sold 11 loans totaling \$1,377,350. In 1999, 10 loans for \$1,245,800 were sold. As of August 30, 2000, 2 loans were sold for \$200,000.

Luso-American Credit Union is headquartered in Peabody, Massachusetts at 37 Tremont Street. Office hours are convenient and appear to be accessible to all segments of the assessment area. The credit union is open Monday through Wednesday from 9:00 a.m. to 5:00 p.m. and Thursday and Friday from 9:00 a.m. to 6:00 p.m. The credit union also maintains hours from 8:30 a.m. to 1:00 p.m. on Saturday. Drive-up banking is available at the branch. In addition, the credit union operates one 24 hour Automated Teller Machine (ATM) at this location. No offices have been opened or closed since the last CRA examination.

The credit union offers its members a full range of credit, and deposit services including checking accounts, ATM cards (linked to NYCE & Cirrus networks), debit cards (Master Check Card), and term certificates. The types of credit offered by the credit union consist of first and second real estate mortgages, home equity lines of credit, new and used automobile loans, personal unsecured loans, education loans, Visa credit card and share secured loans. In addition, the credit union offers telephone banking that enables its members to make account inquiries, obtain transaction histories, and transfer payments to

loan accounts.

Luso-American Credit Union has competition from several financial institutions within its assessment area. These financial institutions include but are not limited to the following: North Shore Savings Bank; Warren Five Cents Savings Bank; Community Credit Union of Lynn, as well as representatives of regional and national mortgage companies. The market influence from these institutions appears to be significant, and as a result, serves to keep the credit union's rates and services offered competitive.

Market share information obtained from PCI Services, Inc. CRA WIZ, indicates 373 mortgage companies, savings banks, commercial banks, cooperative banks, and credit unions operate within the credit union's assessment area, and have either originated or purchased residential mortgage loans.

The credit union was last examined for compliance with the Community Reinvestment Act by the Commonwealth of Massachusetts Division of Banks on February 23, 1998. That examination resulted in a CRA rating of Satisfactory.

Description of Assessment Area

The credit union has defined its assessment area as the cities of Lynn, Peabody, Salem, and Beverly, and the towns of Danvers, Lynnfield and Middleton. Of the seven communities in the assessment area, all are located in the Boston Metropolitan Statistical Area (MSA).

Assessment Area Demographics

According to 1990 US Census Data, the seven communities mentioned above have a combined population of 245,000 and a total of 100,799 housing units. Of the total housing units, 54,644, or 54.2 percent are owner occupied, 39,636 or 39.3 percent are rental units, and 6,519, or 6.5 percent are vacant housing units. The median housing value for the assessment area is \$163,028. In addition, 9,546, or 10.2 percent of the total number of households in the assessment area live below the poverty level and 26,821 or 28.5 percent are on Social Security.

In total, there are 53 census tracts within the credit union's assessment area: 5 are designated as low-income, 18 are moderate-income, 25 are middle-income, 4 are upper-income and 1 is designated as N/A. Census tract 2115.00 designated as N/A is located in Danvers and contains no reported population.

Description of Peabody

Peabody is a city located 17 miles north of Boston. Throughout its history, Peabody has been a regional employment center for the North Shore. From its rise as one of the world's great leather-producers with over 100 tanneries, to today's modern and highly successful Centennial Industrial Park, a newly renovated North Shore Mall, and

rejuvenated downtown, Peabody continues to be a focal point for the North Shore economy.

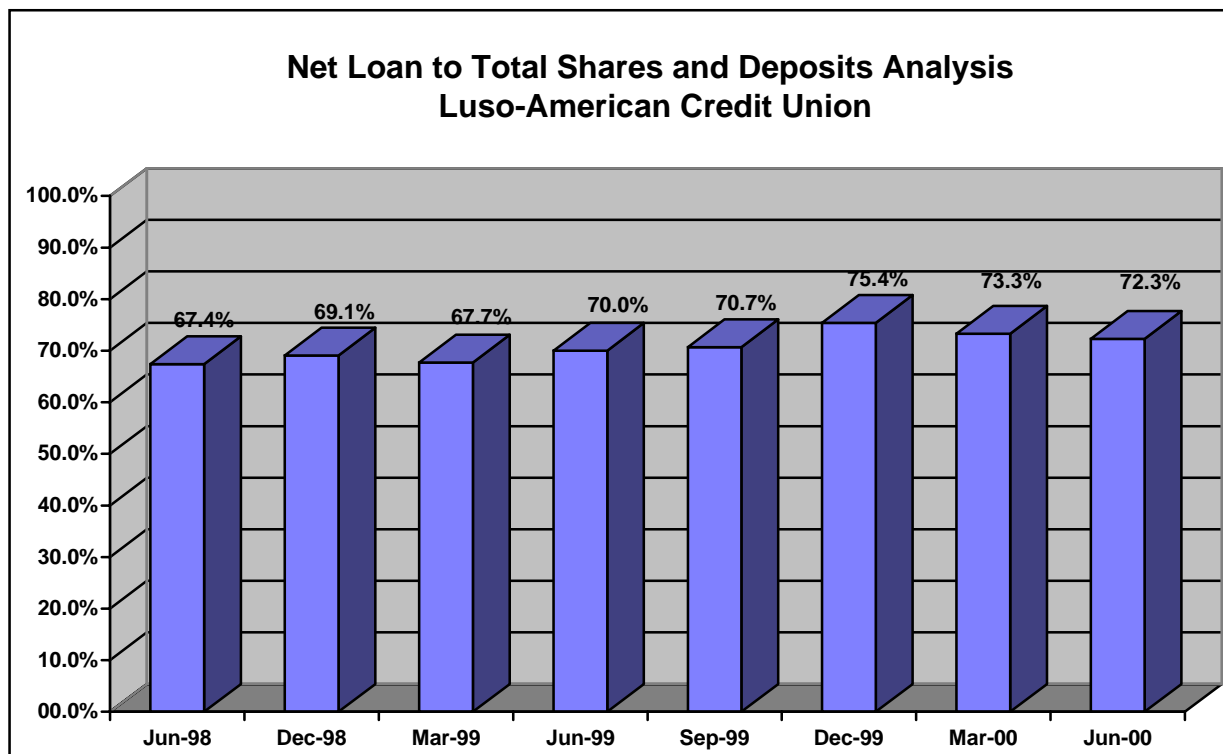
PERFORMANCE CRITERIA

1. LOAN TO DEPOSIT ANALYSIS

Based upon the following, Luso-American Credit Union's average net loan to total deposit (share) ratio appears to be reasonable and, as such, meets the standards for satisfactory performance.

An analysis of Luso-American Credit Union's loan to deposit ratios was performed. The calculation incorporated eight quarters of the credit union's net loan to total share figures as reflected in the credit union's quarterly NCUA 5300 Reports. The quarters reviewed included the periods from June 30, 1998, through June 30, 2000. Luso-American Credit Union's net loan to total shares and deposits ratio, on average, was 70.7 percent. This ratio has fluctuated from a low of 67.4 percent on June 30, 1998, to a high of 75.4 percent on December 31, 1999.

The following graph illustrates Luso-American Credit Union's net loan to total shares and deposit ratio trends.



Source: NCUA 5300 reports from June 30, 1998 through June 30, 2000

A comparison of Luso-American Credit Union's net loans to total deposit ratio to that of other area financial institutions was also performed and is reflected in the following table. The institutions chosen for this analysis are of similar size and type. Luso-American Credit Union compares favorably to them. The ratios shown are calculated from the NCUA's Call Report data as of March 31, 2000.

INSTITUTION	NET LOAN TO DEPOSIT RATIO
Community Credit Union of Lynn	81.6%
Luso-American Credit Union	73.3%
St. Joseph Credit Union	60.6%
St. Jean's Credit Union	59.0%
Brotherhood Credit Union	56.4%

Based on the credit union's capacity to lend, the capacity of other similarly situated credit unions, the type of loans available, and the lending opportunities available to its membership, the loan-to-share ratio of the credit union is considered to meet the standards for satisfactory performance.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

Luso-American Credit Union's 1998, 1999, and Year-to-date August 23, 2000 HMDA/Loan Application Registers (LARs) were reviewed to determine the amount of credit extended within its assessment area. During this period, the credit union originated 148 HMDA-reportable loans totaling approximately \$18,354,000, of which, 132 loans, or 89.2 percent of the number, totaling \$16,312,000, or 88.9 percent of the dollar amount were originated in the assessment area.

By number, Peabody accounted for the largest number of originations with 69.6 percent, followed by Salem with 9.5 percent, and Danvers with 4.7 percent. Peabody also accounted for the largest dollar volume of originations with 69.9 percent, followed by Salem with 8.5 percent, and Danvers with 5.8 percent. Refer to the following tables for additional information.

HMDA-Reportable Loans by Number of Originations

Location	1998		1999		YTD 2000		Total	
	#	%	#	%	#	%	#	%
Peabody	56	70.0%	39	67.2%	8	80.0%	103	69.6%
Salem	8	10.0%	6	10.4%	0	0.0%	14	9.5%
Danvers	3	3.8%	4	6.9%	0	0.0%	7	4.7%
Beverly	3	3.8%	1	1.7%	0	0.0%	4	2.6%
Lynn	2	2.5%	0	0.0%	0	0.0%	2	1.4%
Lynnfield	1	1.2%	1	1.7%	0	0.0%	2	1.4%
Inside Assessment Area	73	91.3%	51	87.9%	8	80.0%	132	89.2%
Outside Assessment Area	7	8.7%	7	12.1%	2	20.0%	16	10.8%
Total	80	100.0%	58	100.0%	10	100.0%	148	100.0%

Source: HMDA/LAR Data for the period 1/1/98 to 08/23/00.

HMDA-Reportable Loans by Dollar Amount of Originations

Location	1998		1999		YTD 2000		Total	
	\$(000)	%	\$(000)	%	\$(000)	%	\$(000)	%
Peabody	6,315	70.8%	5,204	65.0%	1,294	91.5%	12,813	69.9%
Salem	807	9.0%	753	9.4%	0	0.0%	1,560	8.5%
Danvers	159	1.8%	910	11.4%	0	0.0%	1,069	5.8%
Beverly	343	3.8%	58	0.7%	0	0.0%	401	2.2%
Lynnfield	173	1.9%	108	1.3%	0	0.0%	281	1.5%
Lynn	188	2.1%	0	0.0%	0	0.0%	188	1.0%
Inside Assessment Area	7,985	89.4%	7,033	87.8%	1,294	91.5%	16,312	88.9%
Outside Assessment Area	948	10.6%	974	12.2%	120	8.5%	2,042	11.1%
Total	8,933	100.0%	8,007	100.0%	1,414	100.0%	18,354	100.0%

Source: HMDA/LAR Data for the period 1/1/98 to 08/23/00.

As indicated in the tables above, the majority of loans originated in 1998, 1999, and year-to-date 2000 were inside the credit union's assessment area.

A sample of 115 consumer loan originations during 1998, 1999 and year-to-date August 23, 2000 was also reviewed. The sample was comprised of a mixture of automobile loans and unsecured installment loans. The sample revealed that 100.0% of the loans originated were within the assessment area.

Sample of Consumer Loans by Number of Originations

Location	1998		1999		YTD 2000		Total	
	#	%	#	%	#	%	#	%
Peabody	25	54.3%	26	56.5%	18	78.2%	69	60.0%
Salem	13	28.3%	17	37.0%	3	13.0%	33	28.7%
Lynn	5	10.9%	1	2.2%	1	4.4%	7	6.1%
Beverly	2	4.3%	0	0.0%	1	4.4%	3	2.6%
Danvers	1	2.2%	2	4.3%	0	0.0%	3	2.6%
Inside Assessment Area	46	100.0%	46	100.0%	23	100.0%	115	100.0%
Outside Assessment Area	0	0.0%	0	0.0%	0	00.0%	0	0.0%
Total	46	100.0%	46	100.0%	23	100.0%	115	100.0%

Source: Information contained in the loan files reviewed.

Sample of Consumer Loans by Dollar Amount of Originations

Location	1998		1999		YTD 2000		Total	
	\$(000)	%	\$(000)	%	\$(000)	%	\$(000)	%
Peabody	176	52.5%	139	56.7%	118	67.8%	433	57.4%
Salem	89	26.6%	74	30.2%	15	8.6%	178	23.6%
Lynn	41	12.2%	14	5.7%	25	14.4%	80	10.6%
Danvers	21	6.3%	18	7.4%	0	0.0%	39	5.2%
Beverly	8	2.4%	0	0.0%	16	9.2%	24	3.2%
Inside Assessment Area	335	100.0%	245	100.0%	174	100.0%	754	100.0%
Outside Assessment Area	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	335	100.0%	245	100.0%	174	100.0%	754	100.0%

Source: Information contained in the loan files reviewed.

As with residential loans, the greatest concentrations of consumer loans were in the City of Peabody.

Based upon the above information, it is evident that a large majority of the credit union's loans, by both number and dollar volume, has been extended within its assessment area. Therefore the institution's level of lending within its assessment area exceeds the standards for satisfactory performance.

3. BORROWER CHARACTERISTICS

The credit union's residential loans were further analyzed to determine the distribution of lending by borrower income level. The borrowers' reported incomes were compared to the median family incomes for the Boston Metropolitan Statistical Area (MSA). The income figures are based on estimated Department of Housing and Urban Development (HUD)

information. The estimated incomes in the Boston MSA for 1998, 1999, and 2000 are \$60,000, \$62,700, and \$65,500 respectively.

Low-income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate-income is defined as income between 50 percent and 79 percent of the median family income level for the MSA. Middle-income is defined as income between 80 percent and 119 percent of the median income. Upper-income is defined as income equal to or greater than 120 percent of the median income.

The following table shows the number of HMDA-reportable loans to borrowers of different income levels in comparison to the number of families in each respective income group.

Distribution of HMDA-Reportable Loans to Borrowers of Different Income Levels

Borrower Income Level	Families		1998		1999		YTD 2000		Total	
	#	%	#	%	#	%	#	%	#	%
<50%	14,661	23.0%	13	17.8%	3	5.9%	1	12.5%	17	12.9%
50 – 79%	12,999	20.4%	21	28.8%	14	27.5%	1	12.5%	36	27.3%
80 – 119%	16,020	25.2%	29	39.7%	23	45.1%	5	62.5%	57	43.2%
120%>	20,016	31.4%	10	13.7%	11	21.5%	1	12.5%	22	16.6%
Total	63,696	100.0%	73	100.0%	51	100.0%	8	100.0%	132	100.0%

Source: HMDA/LAR Data for the period 1/1/98 to 08/23/00.

In 1998, 1999, and Year-to-date August 23, 2000, the credit union extended 17 loans to low-income borrowers representing 12.9 percent of the total loans within the assessment area. These loans represent 8.2 percent by dollar amount of the total loans originated in the assessment area. This percentage falls well below the 23.0 percent of low-income families within the assessment area. however, factors, including the number of families living below the poverty level(7.9%) and the affordability of housing within the area both serve to mitigate this performance. In addition, the credit union extended 36 loans to moderate-income borrowers, representing 27.3 percent by number and 25.4 percent by dollar amount which is higher than 20.4 percent of the moderate-income families residing within the assessment area.

The distribution of loans among the different income levels may also be compared to that of all other HMDA-reportable lenders in the assessment area. The most recent data available for this analysis relates to calendar year 1998 and is presented in the following table.

Lending to Borrowers of Different Income Levels
Luso-American Credit Union Compared to All Other HMDA-Reporters

Borrower Income Level	Number of Loans				Dollar Amount of Loans			
	Luso-American Credit Union		All Other Reporters		Luso-American Credit Union		All Other Reporters	
	#	%	#	%	\$(000)	%	\$(000)	%
< 50%	13	17.8%	917	6.0%	960	12.0%	79,623	3.4%
50 – 79%	21	28.8%	2,613	17.1%	2,214	27.7%	250,908	10.6%
80 – 119%	29	39.7%	4,228	27.7%	3,625	45.4%	505,074	21.3%
120%.	10	13.7%	5,186	34.0%	1,186	14.9%	830,934	35.1%
NA	0	0.0%	2,319	15.2%	0	0.0%	701,095	29.6%
Total	73	100.0%	15,263	100.0%	7,985	100.0%	2,367,634	100.0%

Source: HMDA Data for the period 1/1/98 to 12/31/98.

As shown above, the credit union's percentage of loans to low-income members is substantially higher than that of the aggregate by both number and dollar amount. The credit union originated 17.8 percent of its loans by number and 12.0 percent by dollar amount within the assessment area to low-income borrowers, compared to the aggregate with 6.0 percent by number and 3.4 percent by dollar amount.

HMDA loans to moderate-income borrowers accounted for 28.8 percent by number and 27.7 percent by dollar amount within the assessment area. Both number and dollar amount exceed that of the aggregate. The distribution of HMDA-reportable loans by borrower income demonstrates the credit union's willingness to lend to borrowers of all income levels, including those of low and moderate-income.

In addition, a sample of consumer loans originated in 1998 through August 30, 2000, was reviewed and revealed that 62.6 percent were granted to low-income members, 26.1 percent to moderate-income members, 10.4 percent to middle-income members, and 0.9 percent were to upper-income members. Refer to the following table. It should be noted that the analysis of consumer loans indicates a higher percentage of loans to low and moderate-income members due to the fact that in most cases only one individual's income is used to make the credit decision. This income is compared to median family income can result in somewhat higher levels within the low and moderate-income categories, and which can somewhat skew the data.

Distribution of Consumer Loans to Borrowers of Different Income Levels

Borrower Income Level	1998		1999		YTD 2000		Total	
	#	%	#	%	#	%	#	%
<50%	23	50.0%	35	76.1%	14	60.9%	72	62.6%
50 – 79%	17	37.0%	7	15.2%	6	26.1%	30	26.1%
80 – 119%	5	10.9%	4	8.7%	3	13.0%	12	10.4%
120%>	1	2.1%	0	0.0%	0	0.0%	1	0.9%
Total	46	100.0%	46	100.0%	23	100.0%	115	100.0%

Source: Information contained in-house loan files.

Based on the information above, the credit union's lending to borrowers of different income levels including those of low and moderate-income exceeds the standards for satisfactory performance.

4. DISTRIBUTION OF LOANS BY CENSUS TRACT INCOME LEVEL

An analysis of residential and consumer loans extended to borrowers from the various census tracts within the credit union's assessment area was conducted. The assessment area is comprised of 53 census tracts: 5 or 9.6 percent are low-income; 18 or 34.6 percent moderate-income; 25 or 48.1 percent middle-income; and 4 or 7.7 percent upper-income.

The one census tract within the assessment area designated as NA was not used to evaluate the credit union's performance in this category because of the limited lending opportunities available in this geography, as described in the performance context.

The following table provides a breakdown, by number, of the credit union's HMDA-reportable loans within its assessment area by census tract classification. The table also shows the number of loans in comparison to the number of owner-occupied properties in each census tract income category.

Distribution of HMDA-Reportable Loans by Census Tract Income Level

Census Tract Income Level	Owner-Occupied Properties		1998		1999		YTD 2000		Total	
	#	%	#	%	#	%	#	%	#	%
Low	963	1.8%	2	2.7%	1	2.0%	0	0.0%	3	2.3%
Moderate	10,799	19.8%	41	56.2%	24	47.0%	2	25.0%	67	50.8%
Middle	35,594	65.1%	28	38.4%	25	49.0%	6	75.0%	59	44.6%
Upper	7,288	13.3%	2	2.7%	1	2.0%	0	0.0%	3	2.3%
Total	54,644	100.0%	73	100.0%	51	100.0%	8	100.0%	132	100.0%

Source: HMDA/LAR Data for the period 1/1/98 to 08/23/00.

As shown in the above table, 2.3 percent of the credit union's loans for 1998, 1999, and year-to-date 2000 were originated within the low income census tracts, which is higher than the 1.8 percent of owner occupied properties within low-income tracts. In addition, the credit union originated 50.8 percent of its loans in moderate-income census tracts, which is significantly higher than the 19.8 percent of owner occupied properties in those tracts.

The geographic distribution of the credit union's loans by census tract category was also compared to that of all other HMDA-reportable lenders in the assessment area. The most recent data available for this analysis covers calendar year 1998 and is presented in the following table.

Distribution of HMDA-Reportable Loans by Census Tract Income Level
Luso-American Credit Union Compared to All Other HMDA Reporters

Census Tract Income Level	Number of Loans				Dollar Amount of Loans			
	Luso-American Credit Union		All Other Reporters		Luso-American Credit Union		All Other Reporters	
	#	%	#	%	\$(000)	%	\$(000)	%
Low	2	2.7%	308	2.0%	116	1.5%	27,980	1.2%
Moderate	41	56.2%	2,798	18.3%	4,581	57.4%	290,622	12.3%
Middle	28	38.4%	9,821	64.3%	3,100	38.8%	1,578,008	66.6%
Upper	2	2.7%	2,330	15.3%	188	2.3%	470,076	19.8%
NA	0	0.0%	6	0.1%	0	0.0%	948	0.1%
Total	73	100.0%	15,263	100.0%	7,985	100.0%	2,367,634	100.0%

Source: HMDA/LAR Data for the period 1/1/98 to 12/31/98.

As demonstrated above, the percentage of the credit union's lending activity in low and moderate-income census tracts, by both number and dollar, is higher than that of the aggregate. Lending activity in low and moderate-income census tracts was 58.9 percent by both number and dollar amount in 1998. In comparison, all other HMDA reporters originated 20.3 percent by number and 13.5 percent by dollar amount in low and moderate-income census tracts. These percentages reflect the credit union's willingness to lend to all segments of the assessment area, especially in low and moderate-income areas. Based on these figures, the credit union exceeds the standards of satisfactory performance.

5. REVIEW OF COMPLAINTS AND FAIR LENDING POLICIES AND PRACTICES

REVIEW OF COMPLAINTS

A thorough review of Luso-American Credit Union's public comment file revealed that the credit union received no complaints pertaining to the institution's CRA performance since the previous examination.

FAIR LENDING POLICIES AND PRACTICES

Detailed below is the credit union's fair lending performance as it relates to the guidelines established by the Division of Bank's Administrative Bulletin 2.3-101. Luso-American Credit Union has a formal written Fair Lending policy that addresses many aspects contained within the Bulletin.

STAFF TRAINING

Employees of the credit union appear informed of most CRA and fair lending issues. The credit union's CRA officer is responsible for training and conveying information to all employees. Due to the limited number of credit union employees, attendance at seminars and workshops is limited. On October 28, 1998, two credit union employees attended a consumer lending basics seminar sponsored by the Massachusetts Credit

Union League, Inc. The CRA training is mostly conducted at the credit union during informal staff meetings.

STAFF COMPOSITION AND COMPENSATION

The credit union has 19 employees, of whom one is a minority. All 19 employees are fluent in Portuguese and 5 are also fluent in Spanish.

Loan officers are paid on a salary basis and are therefore encouraged to make loans of all dollar amounts.

OUTREACH

All of the credit union personnel serving the membership contribute to the credit union's understanding of local credit needs through their involvement in various affiliate institutional events and frequent contact with members

CREDIT PRODUCTS AND UNDERWRITING STANDARDS

The Board of Directors reviews the credit union's lending policy annually. The policy covers all loan product descriptions and general underwriting standards.

The credit union offers a variety of loan products including first mortgages, second mortgages, construction loans, home equity lines of credit, home improvement loans, auto loans, personal loans, open end loans, passbook loans-shared secured, credit cards, and other non-real estate loans which might be offered in response to member demand.

Luso-American Credit Union continues to offer a non-conforming First Time Homebuyer's Program, which is geared toward first time homebuyers who have limited funds for a downpayment. Members are allowed to purchase a home with a minimum downpayment of 5% (3% must be applicants own funds and 2% can be a gift, a grant or a loan). This program allows for higher qualifying debt-to-income ratios, waived two-month reserve, and competitive interest rates with no points. Qualified applicant income cannot exceed 115% of the median income, the applicant must not have owned a home for the past three years, and the properties are limited to a single family or condominium used as the applicants' primary residence. In 1998, the credit union closed one loan under this program for \$108,500. In 1999, the credit union closed four loans totaling \$592,800 and no loans have closed as of year-to-date August 31, 2000.

MARKETING

The credit union has an informal Marketing Plan that enables the credit union to expose its products and services to its members. The credit union advertises in the Salem Evening News, a local newspaper circulated throughout its assessment area. Ethnic and religious festivals are held periodically and advertisements are placed in the programs of these events. In addition to print media, advertisements are broadcasted

on a local Portuguese speaking radio station as well as a local cable television program. Direct mailing, statement stuffers or fliers are also utilized to promote credit products and services.

CREDIT EDUCATION

Luso-American Credit Union offers and participates in formal credit education programs. On January 28, 1999 the credit union participated in a first time homebuyer program sponsored by the North Shore Action Programs, Inc. On May 23, 2000, a credit union employee addressed a class on the services offered by the credit union at the Salem Harbor Community Development Corporation. In addition, credit union employees are always available to discuss members' credit needs and assist them in filling out loan applications.

The credit union offers an informal pre-qualification program, which assists homebuyers in evaluating the costs of owning a home. Also, the credit union refers qualified borrowers and potential borrowers to the Department of Community Development and Planning in the Cities of Lynn, Salem, and Peabody, for its Soft Second Mortgage Program.

COUNSELING

Credit union employees are available to assist members with problems or questions concerning their credit situation. In addition, the credit union refers declined loan applicants experiencing financial difficulties to the Consumer Credit Counseling Service of Massachusetts, Inc.

SECOND REVIEW PRACTICES

The credit union maintains a second review procedure for all declined loan applications, that is incorporated in the Loan Policy. Prior to the credit union's sending out the denial notice, the manager reviews all declined loan applications.

Real estate loan applications are presented to the Credit Committee for approval or decline. The majority of the Credit Committee members approve or deny the loan application in writing and report their actions to the full board for ratification.

INTERNAL CONTROL PROCEDURES

All loan applications are reviewed by the Credit Committee for quality control. Also, the credit union conducts HMDA review on an informal basis.

MINORITY APPLICATION FLOW

A review of residential loan applications was conducted in order to determine the number of applications the credit union received from minorities. From January 1, 1998, through August 23, 2000, the credit union received 147 residential loan applications

from within its assessment area. During this period, 15 applications or 10.2% were received from minorities. Refer to the following table for further details.

Residential Application Flow

RACE	1998		1999		2000-YTD		TOTALS	
	#	%	#	%	#	%	#	%
Native American	0	0.0	0	0.0	0	0.0	0	0.0
Asian	0	0.0	0	0.0	0	0.0	0	0.0
Black	0	0.0	0	0.0	0	0.0	0	0.0
Hispanic	7	8.5	3	5.5	1	10.0	11	7.5
Joint Race	1	1.3	2	3.6	1	10.	4	2.7
Other	0	0.0	0	0.0	0	0.0	0	0.0
TOTAL MINORITY	8	9.8	5	9.1	2	20.0	15	10.2
White	73	89.0	50	90.9	8	80.0	131	89.1
N/A	1	1.2	0	0.0	0	0.0	1	0.7
TOTAL APPLICATIONS	82	100.0	55	100	10	100.0	147	100.0

SOURCE - CRA Wiz 1998,1999 and YTD August 23, 2000

Of the 15 mortgage applications received from minorities, a total of 10 or 66.7% resulted in originations.

The credit union's minority application flow was compared with the racial make-up of the assessment area and to the 1998 aggregate data for all HMDA reporters within the assessment area. The comparison of this data assists in deriving reasonable expectations for the institution's minority application flow.

According to 1990 Census Data, the credit union's assessment area contained a total population of 245,000 individuals, of which 9.7% are minorities. The minority population consists of 4.7% Hispanic, 2.7% Black, 1.9% Asian, 0.2% American Indian and 0.2% Other. The credit union's minority application flow appears slightly higher than the racial composition of the assessment area.

Aggregate information for 1998 indicates that, of the 19,954 HMDA-reportable applications received by all other lenders within the credit unions assessment area in 1998, 6.2% were from minorities. The credit union received 82 applications during the same period. Of these, 9.8% were from minorities: 8.5% from Hispanics, 1.3% from Joint Race, and 0.2% from Other Minorities.

The credit union's minority application flow is at a higher level than that of all other lenders within the assessment area.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

LUSO-AMERICAN CREDIT UNION

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **SEPTEMBER 1, 2000**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

_____	_____
_____	_____
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_____	_____

A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 2000

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each local community;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that community.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee, which does not exceed the cost of reproduction, and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.